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REPORT TO THE CONGRESS

Progress And Problems
Relating To Improvement Of
Federal Agency Accounting Systems
As Of December 31, 1968 B - 115398

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

PROGRESS AND PROBLEMS RELATING TO
IMPROVEMENT OF FEDERAL AGENCY ACCOUNTING
SYSTEMS AS OF DECEMBER 31, 1968
B-115398

D I G E S T

WHY THE REVIEW WAS MADE

This is the first annual report by GAO to the Congress summarizing progress being made by Federal agencies in developing and improving their accounting systems in accordance with the overall mandates of the Congress and the related principles, standards, and requirements prescribed by the Comptroller General. This report was prepared in response to the recommendation of the House Committee on Government Operations (House Report No. 1159, 90th Congress, Second Session, March 5, 1968).

The General Accounting Office is responsible under the Budget and Accounting Procedures Act of 1950 for cooperating in the development of executive agency accounting systems, for reviewing the systems from time to time, and for approving them when they are considered to be adequate and in conformity with prescribed accounting principles, standards, and related requirements.

OBSERVATIONS

Federal agencies are showing increased interest and activity in improving their financial management systems, in obtaining approval of their accounting systems, and in developing adequate accounting systems.

However, the magnitude of the work yet to be accomplished is indicated by the fact that only 62 systems in the civil departments and agencies had been approved at December 31, 1968, out of a total of 147 subject to approval. The number of currently outstanding approval actions is shown in the following tabulation.

	<u>1950-59</u>	<u>1960-64</u>	<u>1965-68</u>	<u>Total</u>
Statements of principles and standards	-	-	21	21
Segments of systems	6	1	7	14
Complete systems in operation	40	3	19	62

Only one complete system (Corps of Engineers - Civil Works) has been approved in the Department of Defense, although the principles contained in a number of general instructions have been approved. The number of systems subject to approval has not yet been determined by the Department. (See p. 17 and appendix 1.)

Tear Sheet

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The General Accounting Office anticipates applying about 200 man-years of effort during fiscal year 1970 to assist the executive departments and agencies in developing acceptable accounting systems and to the review and approval of these systems.

The President's Commission on Budget Concepts was established to study the Federal budget and to recommend how it could be presented to help both the public and Congress to understand it better. The Commission's report issued in October 1967 heartily endorsed the trend toward the use of accrual accounting and recommended that budget expenditures and receipts be reported on an accrual basis. The Commission's recommendations and endorsement of accrual accounting has provided an additional incentive for accounting systems improvements in the Federal agencies.

Both President Johnson and President Nixon have supported development of improved systems of financial management including emphasis on the accrual basis of accounting as required by law and as recommended by the President's Commission on Budget Concepts.

The concept of accrual accounting--a requirement stated in law and in related principles and standards prescribed by the Comptroller General--has been generally accepted in principle throughout the Government. Current problems relate primarily to effectively applying the concept in practice.

While Federal agencies have, with some exceptions, adopted the concept of monetary property accounting--proper accountability of Government-owned property in dollar terms--serious deficiencies exist in implementing and operating such systems. (See p. 10.)

There is a need for better coordination between PPB staffs and the accounting and reporting staffs in most Federal agencies. (See p. 8.)

There are too few good cost accounting systems in the Federal Government. (See p. 8.)

There is a continuing shortage of qualified accountants in the Federal Government. (See p. 13.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no specific recommendations. However, GAO has made numerous recommendations and suggestions concerning financial management and accounting matters in reports to the Congress and to agency officials, and in informal dealings with agencies. Examples of such recommendations and suggestions are cited in Chapter 5 as they relate to individual agencies.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The more important actions being taken by individual executive agencies in developing their accounting systems and the issues that need to be resolved are described in Chapter 5.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is presented for the information of the Congress in accordance with a recommendation of the House Committee on Government Operations for an annual report on the status and progress by agencies in developing their accounting systems. Future reports are planned to be, as this one is, on a calendar year basis.

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<u>ABBREVIATIONS</u>	
ADP	Automatic Data Processing
AID	Agency for International Development
BPR	Bureau of Public Roads
CSC	Civil Service Commission
DOD	Department of Defense
DOT	Department of Transportation
FAA	Federal Aviation Administration
FAS	Forest Agricultural Service
FHWA	Federal Highway Administration
FSI	Foreign Service Institute
GAO	General Accounting Office
GSFC	Goddard Space Flight Center
HEW	Department of Health, Education, and Welfare
HHFA	Housing and Home Finance Agency
HUD	Department of Housing and Urban Development
IADS	International Agricultural Development Service
IRS	Internal Revenue Service
NASA	National Aeronautics and Space Administration
OEO	Office of Economic Opportunity
OST	Office of the Secretary
PAID	Personnel and accounting integrated data pay sub-system
PPB	Planning, Programming and Budgeting
R&D	Research and Development
RFDPC	Regional Finance and Data Processing Center Department of State, Paris, France
SBA	Small Business Administration
SLSDC	Saint Lawrence Seaway Development Corporation
USDA	United States Department of Agriculture
USDO	United States Disbursing Officer
USIA	United States Information Agency
USIS	United States Information Service
VA	Veterans Administration
VRA	Volunteer Readjustment Allowance
WCF	Forest Service Working Capital Fund

"*** the head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide--

- "(1) full disclosure of the financial results of the agency's activities;
- "(2) adequate financial information needed for the agency's management purpose;
- "(3) effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit;
- "(4) reliable accounting results to serve as the basis for preparation and support of the agency's budget requests, for controlling the execution of its budget, and for providing financial information required by the Bureau of the Budget under section 213 of the Budget and Accounting Act, 1921;
- "(5) suitable integration of the accounting of the agency with the accounting of the Treasury Department in connection with the central accounting and reporting responsibilities imposed on the Secretary of the Treasury by section 114 of this part "

Section 113(c) of the act, as amended in 1956.

"*** As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

GENERAL REVIEW OF AGENCY EFFORTS, PROBLEMS, AND PROGRESS

The first accounting system to be approved under the Budget and Accounting Procedures Act of 1950 was that of the Coast Guard which was approved in 1951. During the period 1952-1959, 39 systems were approved. During the 5-year period 1960-1964, only three systems were approved. The slow pace of compliance with the provisions of the Budget and Accounting Procedures Act led to Congressional hearings before a subcommittee of the House Committee on Government Operations in 1964. Continuing interest of the committee in financial management improvement efforts has been evidenced each year since 1964 by the issuance of a committee report or by holding further hearings.

The executive branch of the Government has also supported, at the highest levels, improved systems of financial management. Interest has also been created through the recommendations on accrual accounting contained in the Report of the President's Commission on Budget Concepts in October 1967.

In calendar year 1968, an eighteen year peak was reached in approval of accounting systems. In that year, 10 complete systems, 3 segments of systems, and 15 statements of principles and standards were approved. Agency schedules for proposed submission of accounting systems for approval by the Comptroller General would indicate that the pace will continue to accelerate.

The concept of accrual accounting has been generally accepted throughout the Government. Current problems relate primarily to application of the concept and maintenance of adequate systems.

The task of developing an accounting system to the point where it can be approved by the Comptroller General varies from agency to agency and system to system. The task is often complex and time consuming.

There are scores of agencies, hundreds of programs, hundreds of geographic locations, and a wide variety of activities, for which improved accounting must be accomplished. Some agencies and programs are relatively small and not too complex, others are extremely large and very complex. Some involve many large contract operations with industry, universities, and others. Some involve substantial programs with State and local governments, universities, and nonprofit organizations. Appropriate coordination of these interlocking operations is a task of some magnitude for the larger agencies involved.

Many agencies are making significant efforts to improve their financial management practices in general and their accounting systems in particular. However, we are not completely satisfied with the overall progress being made. We do recognize that the problems of constructive change

are varied, complex, and time consuming and we also feel that current agency efforts should be maintained and accelerated in keeping with current agency schedules to obtain approval of their accounting systems. The efforts, problems, and progress of each of 21 agencies are described briefly in Chapter 5 of this report along with our specific comments. All other agencies are included under the heading "Other Independent Agencies."

ACCOUNTING FOR COSTS

Although the General Accounting Office encourages agencies to adopt internal cost-based budgeting procedures, we do not consider our Office to be in a position to require their adoption. We believe that such a requirement, as stated in the law since 1956 (see p. 6), should be recognized by each agency, and that the Bureau of the Budget should provide the leadership to achieve this objective. Adoption of this basis of budgeting for internal management purposes would relate plans and budgets, developed on an accrued cost basis, to the agency accounts which are required to be maintained on an accrued cost basis. This procedure would provide the basis for improved information in the hands of managers for use in controlling costs of operations.

The production and reporting of significant cost information are essential ingredients of effective financial management. Cost information is useful in the decisionmaking activity involving the selection of alternative courses of action, in measuring actual performance in relation to planned performance, and in comparing costs of similar activities.

The Planning-Programming-Budgeting (PPB) system which has been implemented to varying degrees in the major Federal agencies was instituted to aid in making judgments between alternative courses of action. Accounting systems are required to provide data in support for the PPB systems.

As discussed more fully in our report on Survey of the Planning-Programming-Budgeting System in Executive Agencies (B-115398, July 1969), we found that PPB officials in the agencies surveyed were not very familiar either with their agencies' accounting systems or accounting reports that might be produced that would relate to their responsibilities. We did find that some agencies either have accounting support for their PPB system or are making plans for such support. In any event, we believe that Federal agencies will be able to obtain the most benefit from their accounting systems only if agency officials with financial information needs, such as PPB staffs, can effectively communicate their needs to officials that have accounting and reporting responsibilities.

There are too few good cost accounting systems in the Federal Government. In an effort to promote better agency accounting for costs, the General Accounting Office has distributed and will continue to distribute to other agencies examples of good cost control practices involving accounting for costs. The following pamphlets, developed by the agencies concerned, have been used for this purpose.

"Productivity Accounting" prepared by the Office of Administrative Services, Department of Commerce.

"Accounting" prepared by the Bureau of the Census, Department of Commerce.

"Synopsis of Financial Management" prepared by the Bureau of Engraving and Printing, Department of the Treasury.

"Responsibility Accounting" prepared by the United States Government Printing Office.

Productivity measurements are important when management is interested in matters of economy and efficiency. The cost of a measurable unit of production is determined through cost accounting techniques. The Department of Commerce pamphlet on "Productivity Accounting" illustrates the savings which may be realized through good cost information in the hands of interested managers. The pamphlet states that since its inception in 1964, application of the Productivity Accounting Program in the Office of Administrative Services is credited with a 13-percent reduction in personnel complement, in spite of increased workloads in those activities where reductions occurred. The reductions resulted from combinations of

1. Identification of workload fluctuation,
2. The application of norms (manpower and related dollars required to produce outputs),
3. Utilization of the flexible staff, skill-level concept, which ruled out the necessity to staff for peak workloads in any unit of the organization

Mention is made in Chapter 5 of the need for better cost accounting to provide cost information for consideration in establishing rates to be charged for services rendered (see pp. 18, 19, 25, 40, and 58)

ACCOUNTING FOR PROPERTY

Adequate monetary property accounting includes internal controls which provide management assurance that property is being adequately controlled and accounted for. The importance of property accounting also rests on the fact that when public funds are invested in such property, there is a need to render an accounting for the use of both the funds and the property.

The need for adequate property accounting has been recognized by the Congress through enactment of several laws including.

National Security Act of 1947 (10 U.S.C. 2701), which requires the Secretary of Defense to have property records maintained on both a quantitative and monetary basis, so far as practicable.

Federal Property and Administrative Services Act of 1949 (40 U.S.C. 483b), which requires each executive agency to maintain adequate inventory controls and accountability systems for the property under its control.

Public Law 84-863 (31 U.S.C. 66a(c)), approved August 1, 1956, which requires that the accounting system of each agency include adequate monetary property accounting records.

Since enactment of these laws, the executive agencies having significant amounts of property have, with some exceptions, adopted the concept of monetary property accounting in their accounting principles and standards. Most of these exceptions pertain to property for which the managerial benefits of monetary property accounting are not great. For example, an attempt to reconstruct or estimate and record the original cost of certain monuments, the public domain, or the original cost of roads, streets, and bridges of the District of Columbia would be projects of limited value. There are also practical limitations in monetary accounting for military equipment.

In some cases monetary property accounting procedures have not been developed where, in our opinion, there is management significance. For example, the D.C. Government does not have current plans to install monetary property accounting for the cost of water and sewer mains which should be a factor for consideration in the establishment of rates. Another example is the Coast Guard which does not maintain adequate monetary accounting for significant amounts of property such as vessels, vehicles, and certain other equipment.

Some agencies that have adopted monetary property accounting have not satisfactorily implemented the concept. For example, we do not believe that the property accounting systems of the Department of State or the Peace Corps have been adequately designed to include the necessary internal controls to provide assurance that reliable data is contained in the property accounts.

There are other instances where a satisfactory property accounting system has been designed and installed, but is not being operated in an acceptable manner. For example, during fiscal years 1965 and 1966 stock records of selected Department of Defense depot inventories--averaging in value about \$10.4 billion--had to be adjusted up or down an average of \$2.4 billion annually in order to bring them into agreement with the physical inventory quantities. In an operation as large as the Federal Government, there will always be problems of varying magnitudes in maintaining property accounts once they have been properly designed and installed. Nevertheless, we believe that more attention to adequate administration and operation of monetary property accounts will produce more accurate information for use in the decisionmaking processes relating to the management of property. Good accounting for property is not only necessary as a matter of accountability, but also for effective use, procurement, and supply of such resources.

RECOMMENDATIONS OF PRESIDENT'S COMMISSION ON BUDGET CONCEPTS

This commission was created in 1967 to make a study of the Federal budget and to recommend how it could be presented to help both the public and Congress to understand it better. The Commission issued its report in October 1967 and the President accepted the far reaching recommendations of the Commission with regard to the basic concepts for the budget.

The Commission heartily endorsed the trend toward the use of accrual accounting and recommended that budget expenditures and receipts be reported on an accrual basis instead of the present cash basis, stating that this basis would result in budget totals which would provide a better measure of the impact of Government activities on the national economy.

This development put added emphasis on the need for each Federal agency to maintain its accounts on the accrual basis. The Commission recognized that substantial progress had been made in the improvement of agency accounting systems. It also recognized that it was not possible for several key agencies, notably the Department of Defense, to provide immediately the information which was needed to report budget results on the accrual basis. Specific instructions to the executive agencies for implementing the Commission's recommendations are contained in Bureau of the Budget Bulletin No. 68-10, dated April 26, 1968.

Although basic laws and the Comptroller General's prescribed principles and standards of accounting for Federal agencies have long called for the maintenance of accounts on the accrual basis, some refinement in the application of these principles and standards is necessary to accommodate, primarily at the appropriation level, the reporting, in accordance with the Commission's recommendations, of revenues and expenditures in terms of accruals rather than in terms of receipts and disbursements. Accordingly the heads of departments and agencies were informed on May 4, 1968, that accrued revenue and expenditure data must be obtained and reported on a monthly basis and that in the case of contractors performing work to the Government's specifications, accrued expenditures must be recognized in Federal accounts and reports on the basis of constructive receipt of goods and services, without awaiting physical delivery to or acceptance by the Government.

Special studies were instituted by the General Accounting Office, the Bureau of the Budget, and the Treasury Department to analyze the problems and develop workable procedures for implementing the accrued revenue and expenditure recommendations of the President's Commission on Budget Concepts. The principal problems requiring special study are (1) accounting for costs incurred by contractors but not yet reported to the Government under contracts for the furnishing of materials, facilities, and equipment to the Government's specifications, (2) accounting for costs incurred by recipients of Federal funds under grant-in-aid programs, and (3) estimating revenues from income and other forms of Federal taxes on the accrual basis.

The Commission recommended a conversion to the accrual basis for the 1971 budget, to be submitted to the Congress in January 1970. It was concluded early in 1969 that this target date could not be met because not

all agencies had made sufficient progress in converting their systems. Accordingly, by joint memorandum dated March 10, 1969, from the Secretary of the Treasury, the Director of the Bureau of the Budget, the Chairman of the Council of Economic Advisers, and the Comptroller General, the announcement was made that the conversion date would be deferred one year--to be made for the 1972 budget to be submitted in January 1971.

STAFFING AND TRAINING

Accounting for the operations of the Federal Government has, over the years, grown more and more complex, necessitating the development of higher skills and the use of more sophisticated equipment. The days when simple fund accounting and manually maintained records were adequate have long since passed. Performance budgeting as recommended by the Hoover Commissions and accrual accounting as required by law (31 U.S.C. 66a) have brought new dimensions to the concepts of financial management in the Federal Government.

More recently, the advent of the Planning-Programming-Budgeting System (PPBS) and the recommendations of the President's Commission on Budget Concepts have brought into focus the breadth of improvements needed in accounting for the operations of the Federal establishment and the urgency for their timely achievement. The addition of a large number and variety of new programs, many involving Federal-State relationships, has added problems. The volume of transactions and the need for timeliness in reporting to management have brought electronic computers into extensive use with the attendant need to apply judgment and skill in the planning, management, and operation of this equipment.

Today, accounting systems must include cost systems which provide an accurate and reliable basis for developing and reporting costs of performance in accordance with the Planning-Programming-Budgeting (PPB) structure, to serve the various needs of each organizational echelon, and to support the budgetary system. The complexities of modern accounting systems to serve the information needs of management has generated a need for an upgrading of accounting skills and the development of skills in the electronic equipment field.

In response to this need, the Civil Service Commission established the Financial Management and PPBS Training Center in Washington, D.C. in 1967. This center provides training for executives and staff specialists in both accounting and PPBS. It also develops specialized training materials and provides advice and assistance to other agencies in matters relating to training.

During fiscal year 1968, the Financial Management and PPBS Training Center conducted 54 sessions of 15 training programs for 1,904 participants in the Washington area. An additional 46 sessions were conducted in the field for 3,272 agency employees. A substantial number of new courses are under active development for fiscal year 1969. In the field of financial management emphasis is being placed on the development of a foundation curriculum. New courses in financial management will include "Estimating Program Costs" and "Financial Control."

During fiscal year 1968 the Commission completed the establishment of 4 regional training centers--San Francisco, St. Louis, Atlanta, and Philadelphia. Each regional center will service about one-fourth of the Federal service outside the Washington, D.C. area.

The great need for professionally competent accountants makes it highly desirable to relieve such employees of any duties which might be performed by a technician. During fiscal year 1968, the Civil Service Commission established new classification and qualification standards for Accounting Technicians positions. Managers now have the tools to make appropriate assignments of work to professional accountants and accounting technicians.

Governmental accounting courses at colleges and universities are based almost entirely on accounting practices of municipalities. Courses based on accounting in the Federal Government are not taught for the principal reason that there is no suitable textbook on the subject. The Joint Financial Management Improvement Program has recently initiated a project to develop a textbook on the Federal financial management system primarily for use by Federal managers and financial personnel, and for students and others in the fields of business and public administration.

The recent increased emphasis on training in financial management holds much promise for long term benefits. At the moment, however, there is a continuing shortage of qualified accountants at a time when the demands for better financial information are still increasing.

CHAPTER 4

GENERAL ACCOUNTING OFFICE EFFORTS TO IMPROVE FINANCIAL MANAGEMENT

The General Accounting Office has continued its efforts to improve financial management by cooperating with agency officials in the development and review of statements of accounting principles and standards and of the design and operation of their accounting systems. These efforts include consultations, circulation of examples of good financial management practices, and review of agency systems submissions. This cooperative approach to the systems work provides a basis for making needed or desirable changes as the development work progresses, thereby avoiding possible major changes at a later date.

One significant action taken to facilitate orderly cooperative development and to avoid excessive revisions, was to provide for a required two-stage submission and approval process, and an optional intermediate submission and related approval stage. The first stage was established to provide for development, submission, and approval of the principles and standards of accounting to be followed in designing and maintaining an accounting system. The first stage is considered desirable for the purpose of obtaining approval of the underlying principles and standards before investing efforts in the design, development, and implementation of the system. This initial stage is the point at which an agency should make fundamental decisions regarding the financial management plan to be used and the specific concepts of the related accounting system. Accordingly, the statement of principles should be definitive and not general in character. It is important to identify and resolve at an early stage those problem areas that might adversely affect ultimate approval of a system.

The second stage (which is optional for each agency) is represented by the system design. Although a fully developed accounting manual is not required when requesting approval at this stage, such a manual may be used to document the design stage. The establishment of this stage provides an additional checkpoint where problems may be identified and resolved prior to development and implementation of the detailed operating procedures.

The third submission and approval stage is represented by a fully developed and documented accounting system which is operational or which has been adequately tested and proven adequate in operation.

The change in the submission and approval process has been very useful. As of December 31, 1968, 59 statements of principles and standards had been submitted under the revised procedures and 32 statements had been approved.

REVIEW OF PREVIOUSLY APPROVED ACCOUNTING SYSTEMS

Our efforts during the last 2 years have included the review of selected accounting systems which were approved in prior years. The accounting system for the Bureau of the Budget, the Interstate Commerce Commission, the Selective Service System, and several accounting systems in the Veterans Administration were reviewed and recommendations made for

improvements in accounting for costs. Several previously approved systems are in the process of revision for resubmission to the Comptroller General (target dates for resubmission of previously approved systems are shown in appendix I).

These and other reevaluation efforts have taken place as part of our regular cooperative accounting systems development work. We have concluded that it would be advisable to continue reevaluation efforts on this cooperative basis for the present, without undertaking to formalize the reevaluation of previously approved accounting systems as recommended by the House Committee on Government Operations in its report (No. 1159). This approach provides flexibility in matching available manpower with executive agency schedules for development of accounting systems for review and approval.

DISTRIBUTION OF EXAMPLES OF GOOD FINANCIAL MANAGEMENT PRACTICES

As stated on page 8, the General Accounting Office has, as recommended by the House Committee on Government Operations, continued to circulate among executive agencies examples of good financial management practices.

ACCOUNTING SYSTEMS ACTIVITY AND STATUS

At December 31, 1968, there were 147 systems subject to approval in the civil departments and agencies, of which 62 had been approved. During calendar year 1968, these departments and agencies submitted for approval of the Comptroller General 25 statements of principles and standards, 3 systems designs, 6 complete systems, and 10 segments of systems. Ten complete systems were approved during the year which compares with 52 approvals during the preceding 17 years.

We have been unable to ascertain the total number of accounting systems in the Department of Defense which should be subject to approval by the Comptroller General. The diversity of operations and the dispersal of its organizational structure have resulted in numerous segmented systems which have only recently come under analysis and evaluation. The Department of Defense submitted 16 directives and instructions, representing portions of their principles and standards, for approval during 1968.

A detailed status report at December 31, 1968, is shown in appendix I. Accounting systems activity during 1968 and the status at December 31, 1968, are summarized in the following schedule.

CIVIL DEPARTMENTS AND AGENCIES
ACCOUNTING SYSTEMS APPROVALS--FORMAL
CALENDAR YEAR 1968

	Subject to approval	Approved	In process of approval	Scheduled for submission or resubmission
COMPLETE SYSTEMS:				
Status--January 1, 1968	147	52	22	54
Activity during the year:				
Submitted for approval			+6	
Approved		+10	-10	
Returned or withdrawn			-8	
Status--December 31, 1968	<u>147</u>	<u>62</u>	<u>10</u>	68
PRINCIPLES AND STANDARDS:				
Status--January 1, 1968		3	7	
Activity during the year:				
Submitted for approval			+25	
Approved		+18	-18	
Returned or withdrawn			-1	
Status--December 31, 1968		<u>21</u>	<u>13</u>	
SYSTEMS DESIGN:				
Status--January 1, 1968		-	-	
Activity during the year:				
Submitted for approval			+3	
Status--December 31, 1968			<u>3</u>	
SEGMENTS OF SYSTEMS:				
Status --January 1, 1968		10	4	
Activity during the year:				
Submitted for approval			+10	
Approved		+4	-4	
Status--December 31, 1968		<u>14</u>	<u>10</u>	

DEPARTMENT OF DEFENSE
ACCOUNTING SYSTEMS APPROVALS--FORMAL
CALENDAR YEAR 1968

	Approved	In process of approval
COMPLETE SYSTEMS:		
Status--January 1, 1968	1	3
Activity during the year:		
Submitted for approval		-
Approved	-	-
Status--December 31, 1968	<u>1</u>	<u>3</u>
PRINCIPLES AND STANDARDS (contained in Directives and Instructions):		
Status--January 1, 1968		11
Activity during the year:		
Submitted for approval		+16
Approved	+11	-11
Status--December 31, 1968	<u>11</u>	<u>16</u>
SEGMENTS OF SYSTEMS:		
Status--January 1, 1968		4
Returned or withdrawn during year		-1
Status--December 31, 1968		<u>3</u>

DEPARTMENT OF THE INTERIOR

During 1968, the Department and its constituent agencies increased their efforts to improve accounting and financial management systems of the Department. The Department has 19 accounting systems subject to the approval of the Comptroller General. Six of the 19 accounting systems have been approved by the Comptroller General. Although a substantial effort was made during 1968 by the Department and many of its constituent agencies to revise or develop acceptable accounting principles and standards, a considerable amount of the necessary work is yet to be accomplished before most of the systems can be deemed adequate.

More specific comments regarding (1) inadequacies in the accounting systems of the Department, (2) efforts being applied by the Interior agencies to develop adequate systems, and (3) the current status of systems approval, are presented in the following sections.

INADEQUACIES IN THE ACCOUNTING SYSTEMS

The adequacy of the accounting systems of the constituent agencies of the Department of the Interior vary widely. For example, the accounting systems of the Southeastern Power Administration and the Southwestern Power Administration were approved in 1952 and recent reviews by us indicate that the systems of these agencies continue to be adequate. On the other hand, recent work performed by us and the Department showed inadequacies in the operation of the approved systems of the Bureau of Indian Affairs and the Trust Territory of the Pacific Islands.

For instance, in a report to the Congress (B-114868) in September 1968 we noted that the accounting system of the Bureau of Indian Affairs did not provide the necessary cost information which we considered essential in an adequate building maintenance and replacement program. We found that the Bureau's accounting system did not provide information on the costs incurred in repairing, maintaining, improving, and rehabilitating specific buildings and utilities. We believe that the absence of such information as well as other inadequacies in the building maintenance and replacement program, resulted in the demolition of numerous buildings shortly after they were extensively repaired or improved. Also, recent reviews by the Department's Office of Survey and Review and GAO show that the financial management of the Trust Territory of the Pacific Islands is inadequate due partly to the failure of the agency to operate in accordance with the approved system. We also believe that the approved system would not meet our current standards.

The Department's accounting systems in operation which relate to its power programs have for some time been maintained on the basis of accrued costs and in our judgment are generally adequate. We have approved, with some relatively minor suggestions for improvement, the accounting principles and standards of the Bonneville Power Administration (BPA), and based on our annual audits at BPA we do not foresee any major problems in approving this system when it is submitted for approval. We have not as yet

approved the principles and standards of the Bureau of Reclamation which have been submitted for our approval. The system in use as it relates to the Bureau's power program is generally adequate, but we have made several informal suggestions to the Department concerning changes needed in the system particularly as it relates to the nonpower programs.

Eight statements of principles and standards submitted for approval were under review at December 31, 1968. Based on our review of these statements, we believe that the Department's most immediate need in the area of accounting systems is the development of a Departmental statement of basic accounting principles and standards for adoption by all of its constituent agencies. The statement would not replace the detailed principles and standards of each agency but would state the broad principles which must be adhered to by each agency.

In our opinion, based on our review of the principles and standards which have been submitted, these broad principles, which would cover all conceptual aspects of accounting and reporting, should place special emphasis on the following.

1. Require each agency to show the level to which obligation and other fund information will be furnished and why this level is considered to be the highest practical level at which to maintain such control.
2. Provide a uniform policy on the recognition, in the accounts and reports, of the cost of leave.
3. A general policy concerning the recognition of depreciation costs in the accounts and reports.
4. Provide a clear policy regarding accounting and quantitative control of real and personal property, specifically related to general ledger accounting.

IMPROVEMENT EFFORTS BEING APPLIED

The Department's Office of Survey and Review is responsible for the overall coordination and direction of the accounting systems development effort of the Department. The office, which we were advised invested about 2.3 man-years of effort in the accounting systems development area in the 18 months ended December 31, 1968, continued its active leadership role in the development of agency accounting systems. The Department advised us that the various constituent agencies used about 45 man-years of agency staff time and about 13 man-years of outside consultants time on systems development and improvement during that 18-month period.

On June 23, 1967, the General Accounting Office returned, at the request of the Department, ten Bureau accounting systems which had been before the GAO for approval. This was done because of the desire of the Department to incorporate in its accounting systems such modern management tools as a system of responsibility budgeting, accounting, and reporting.

with their accompanying benefits in improved managerial and cost control. During the period of discussions relating to the return of the accounting systems, our Office issued on April 25, 1967, a requirement that accounting systems approval would be accomplished in two stages. Stage I would cover the principles and standards of the accounting system, and Stage II would cover the detailed manual of procedures. At the time the systems were withdrawn by the Department in June 1967, it was noted by the Comptroller General that it would seem to be well within the capability of the Department to resubmit, during fiscal year 1968, many of the systems for first stage reconsideration.

In December of 1967, the Department submitted accounting principles and standards for two of its constituent agencies, the Bonneville Power Administration and the Bureau of Reclamation. The statement of principles and standards for the Bonneville Power Administration was approved in July of 1968. During calendar year 1968, the Department submitted seven other statements of principles and standards.

STATUS OF DEPARTMENT OF THE INTERIOR SYSTEMS--DECEMBER 31, 1968

Complete systems

The Comptroller General has approved the following accounting systems in the Department of the Interior:

<u>Accounting entity</u>	<u>Date approved</u>
Bureau of Reclamation	Oct. 1950 ^a
Government of American Samoa	July 1952 ^b
Southwestern Power Administration	" 1952 ^c
Southeastern " "	Nov. 1952 ^c
Bureau of Indian Affairs	Jan. 1953 ^b
Trust Territory of the Pacific Islands	Mar. 1954 ^b
Bureau of Mines	May 1954 ^c

^aThe Bureau of Reclamation system was approved subject to qualifications, some of which are still unresolved. A statement of principles and standards was submitted to the Comptroller General in December 1967.

^bThese previously approved systems are in process of revisions for resubmission and consideration for approval. A statement of principles and standards for the Bureau of Indian Affairs was submitted to the Comptroller General in August 1968 (see note 1, p. 118 appendix 1, page 12).

^cThe Department had no firm plans for the resubmission of these systems (see note 1, p. 118 appendix 1, page 12).

Principles and standards

As of December 31, 1968, the Comptroller General had under consideration the following statements of principles and standards:

<u>Accounting entity</u>	<u>Date submitted</u>
Office of the Secretary	Aug. 1968
Bureau of Indian Affairs	Do.
" " Land Management	Mar. 1968 ^a
" " Outdoor Recreation	June 1968
" " Reclamation	Dec. 1967
" " Sport Fisheries and Wildlife	June 1968
" " Commercial Fisheries	July "
National Park Service	June "

^aThe Bureau of Land Management statement of principles and standards was approved by the Comptroller General on February 7, 1969.

The following tabulation shows target dates reported by the Department as of December 1968, for submission of statements of principles and standards for the seven systems listed below. The principles and standards were in the process of development.

<u>Accounting entity</u>	<u>Target date</u>	<u>GAO comment</u>
Geological Survey	Jan. 1969	(a)
Office of Territories, Director's Office	do.	(b)
Government of American Samoa	Not yet determined	
Trust Territory of the Pacific Islands	do.	
Federal Water Pollution Control Administration	Feb. 1969	(b)
Alaska Power Administration	Mar. "	(c)
Office of Saline Water	do.	(c)

^aSubmitted for our informal review on January 6, 1969.

^bTarget date not met. A new target date has not been set.

^cTarget date appears to be overly optimistic.

PLANS FOR SUBMITTING DETAILED DOCUMENTATION OF SYSTEMS

The Department has established target dates for submission of detailed documentation for its thirteen systems which have not been approved. The following tabulation shows the target dates reported by the Department as of December 1968.

<u>Accounting entity</u>	<u>Target date</u>	<u>GAO comment</u>
Office of the Secretary	June 1969	(a)
Bureau of Land Management	Mar. "	(a)
" " Outdoor Recreation	June "	(b)
" " Reclamation	Mar. "	(a)
" " Sport Fisheries and Wildlife	Sept. 1970	(b)
" " Commercial Fisheries	Dec. 1969	(b)
Geological Survey	July "	(a)
National Park Service	June "	(a)
Bonneville Power Administration	Feb. "	(a)
Office of Territories, Director's Office	Mar. "	(a)
Federal Water Pollution Control Administration	Dec. "	(a)
Alaska Power Administration	Sept. "	(a)
Office of Saline Water	Dec. "	(a)

^aTarget date appears to be overly optimistic because of either the delays experienced in submitting or approving the principles and standards or the amount of additional work necessary to develop an accepted system.

^bTarget date appears reasonable.

Target dates for submitting detailed documentation had not yet been determined for the following systems which were previously approved and which the Department plans to resubmit (see note 1, p 118 app. 1, page 12).

Accounting entity

Government of American Samoa
Trust Territory of the Pacific Islands
Bureau of Indian Affairs

DEPARTMENT OF JUSTICE

During 1968, the Department intensified its efforts in the development of accounting systems for departmental headquarters and constituent organizations. The Department has six accounting systems subject to the approval of the Comptroller General, one has been approved. We consider the development work done to be of a limited nature and that a large part of the necessary work has yet to be accomplished. Accounting principles and standards have to be developed before the accounting systems can be documented.

More specific comments regarding (1) inadequacies in the accounting systems of the Department which have been noted during our reviews, (2) efforts being made by the Department's bureaus to develop adequate systems, and (3) the current status of systems approval, are presented in the following sections.

INADEQUACIES IN ACCOUNTING SYSTEMS

Except for the Bureau of Prisons and the Immigration and Naturalization Service, the accounts of the other departmental organizations are maintained primarily on an obligation basis with periodic conversions to the accrued expenditure basis. Because the financial planning and budget systems for these organizations are conceptually on an obligation basis, the systems are concerned principally with appropriation and fund accounting. As a result, the systems do not achieve the management and disclosure objectives sought in the law and principles and standards for accounting prescribed by the Comptroller General.

We believe that top departmental management in the past was not particularly concerned with cost information. In addition, there was, in our opinion, a limited number of technically qualified accountants employed by the Department and its constituent organizations capable of performing accounting systems development work. After repeated urging by the GAO staff, the Department began to employ professional accountants to develop its accounting systems.

IMPROVEMENT EFFORTS BEING APPLIED

The Assistant Attorney General for Administration is responsible for the overall coordination and direction of the accounting systems development effort of the Department. Our work with the Department indicates that relatively little progress has been made by the Department toward the development of accrual accounting systems and the use of internal cost-based budgeting. In the past the Department believed that the obligation type accounting system was adequate for its needs. However, the Attorney General recognized that costs were needed as a basis for efficient management and that accounting systems must be developed to conform with the principles, standards, and related requirements prescribed by the Comptroller General.

In order to accomplish this objective, the Department recognized the need for more qualified accounting personnel. In August 1967, a qualified systems accountant was transferred from the Immigration and Naturalization Service (INS) to spearhead the accounting systems development.